MEMORANDUM

TO: The Nevada County Transportation Commission

FROM: Daniel B. Landon, Executive Director

SUBJECT: Executive Director's Report for the January 21, 2004 NCTC Meeting

DATE: January 14, 2004

1. STATUS OF SR 49/CRESTVIEW INTERSECTION/INTERCHANGE PROJECT REPORT AND ENVIRONMENTAL DOCUMENTATION

During the first week in January, I received a revised proposal for this project, prepared by Mark Thomas and Company. This proposal has been distributed to the project stakeholders. The proposal will have Mark Thomas and Company overseeing the entire project, with PMC Associates doing the environmental work, and Fehr and Peers performing the traffic analysis associated with both the intersection and interchange. These work tasks will be coordinated with the Environmental Impact Report that PMC and Fehr and Peers are preparing for the South Hill Village project. The total cost of the proposal has been increased to $441,785. Catlin Properties, developer of South Hill Village, and Sanderson Company, developer of Northstar, are determining how the cost will be shared between them, and once they have agreed upon a cost share, Nevada County Transportation Commission staff will update the 2003/04 Overall Work Program (OWP) to reflect the changes in the project.

2. STATUS REPORT ON IDAHO-MARYLAND ROAD/EAST MAIN STREET ROUNDABOUT PROJECT

On December 18, 2003, Rudi Golnik, Grant Johnson, Greg Bickett, and I met with Caltrans District 3 staff Richard Harris, Project Manager of Special Funded Projects; Tom Brannon, Nevada County Project Manager; Barbara Reenan, Headquarters Geometrician; and Jim Brake, District 3 Traffic Operations Engineer, to review the design work that has been completed on the roundabout.

During the discussion, Caltrans staff expressed concerns regarding the number of vehicles that would use the freeway onramp and potentially worsen the weave movement that occurs with vehicles leaving the freeway at the Bennett Street offramp. In our discussion to mitigate this problem, we noted that if traffic from the Idaho-Maryland/East Main Street onramp was channelized to go to the Bennett Street offramp and then along the frontage road to Colfax Avenue in order to enter the freeway at the South Auburn onramp, the weave issue would be resolved, and it would be possible to simply signalize the Idaho-Maryland/East Main Street intersection. This concept would eliminate right-of-way impacts to the businesses adjacent to this intersection.

To determine the feasibility of this idea, Grant Johnson was tasked with videotaping traffic flows along the frontage road corridor and analyzing the impacts of the additional traffic. The data collected by Grant will also be made available to the U.C. Berkeley Institute of Transportation Studies evaluation team that will be here January 29th and 30th, and will assist in the completion of the Grass Valley Street System Master Plan.

In the event that the analysis of the frontage road corridor shows that the impacts of adding the additional traffic are not acceptable, Greg Bickett was tasked with completing analysis of the approach and exit volumes of the roundabout so we can quantify any impacts to the weave movement between the Idaho-Maryland/East Main Street on-ramp and the Bennett Street off-ramp. These two work tasks will be completed before the end of January. By doing them simultaneously, the project will remain on schedule regardless of which approach is determined to be the best.

3. UPDATE ON 2004 STATE TRANSPORTATION IMPROVEMENT PROGRAM (STIP) PROCESS

At their December 11, 2003 meeting, the California Transportation Commission (CTC) adopted the 2004 STIP fund estimate. Following this meeting NCTC staff met with Caltrans staff on January 7th to discuss a "joint" approach for RTIP (Regional Transportation Improvement Program) and ITIP (Interregional Transportation Improvement Program) funding in the 2004 STIP. Funding for the SR 49 widening project appears to be safe at this time, as the years subject to reprogramming were 2003/04 through 2008/09 and the funds for the SR 49 project were programmed in 2002/03.

Tom Brannon is developing a scope for a "constructible" segment of SR 49 and integrating the project schedule with the STIP cash flow. Tom will also integrate the project schedule for the Dorsey Drive interchange with the STIP cash flow. Both of these tasks will be completed prior to the end of January to enable NCTC and Caltrans to complete their RTIP and ITIP submittals in time for the CTC deadline. Although the CTC has adopted the 2004 STIP fund estimate, funding for California transportation projects continues to be on very shaky footing. Included below are excerpts from the CTC 2003 Annual Report that was approved at the December 2003 CTC meeting. Although it appears somewhat lengthy, I believe this to be the most concise and succinct overview of the transportation funding picture that has been developed to date. I encourage you to carefully consider these materials below.

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CALIFORNIA TRANSPORTATION COMMISSION
2003 ANNUAL REPORT TO THE CALIFORNIA LEGISLATURE

Trends and Outlook for State Transportation Financing

The state transportation financing picture in California has never been bleaker. As 2003 comes to a close, billions of dollars in needed and promised transportation projects have been stopped in their tracks or delayed for years. With transportation funds repeatedly taken to close the General Fund deficit, the California Transportation Commission has been forced to stop making allocations to projects from the three major components of the state transportation program, the State Transportation Improvement Program (STIP), the State Highway Operation and Protection Program (SHOPP), and the Traffic Congestion Relief Program (TCRP). Because of the state's funding crisis, regional and local agencies find themselves without access to the Federal funds to which they are entitled under state law, the Regional Surface Transportation Program (RSTP) and the Congestion Mitigation and Air Quality (CMAQ) Program. Cities and counties are not receiving state subventions committed to them in statute for local road rehabilitation and repair.

A Transportation Program in Crisis

The STIP and the SHOPP constitute the major part of the state's transportation program, the planned commitments of state and Federal transportation dollars approved by the Commission and developed in cooperation with the Department of Transportation (Caltrans) and the state's regional transportation planning agencies. The STIP consists of improvements to the state highway system, the intercity rail system, and other road and transit facilities of regional significance. The SHOPP is the program for rehabilitation and safety work on the state highway system that does not involve increases in roadway capacity. At the end of 2003, there were over $600 million in STIP and SHOPP projects ready to go to construction but held back for lack of funding. By June 2004, that figure could climb to over $1.6 billion. Nearly $700 million in other scheduled STIP projects were able to proceed only by borrowing against future funds. About half of that borrowing is the advancement of funding by local agencies, with a STIP commitment of repayment at a later date. The other half is borrowing through state bonding against future Federal transportation funding apportionments. According to the fund estimate for the 2004 STIP, current projects will be delayed by two years or more, and no new projects will be added over the next 5 years.

Revenues Lost

The suddenness and severity of the cash crisis that brought this year's stoppage in the state transportation construction program is unprecedented, the symptom of a broader and longer term structural problem in California's system of transportation financing. Until a few years ago, the state's transportation programs relied almost exclusively on user fees in the form of fuel taxes and commercial vehicle weight fees. Article XIX of the California Constitution built a firewall around these revenues, protecting them from diversion for other purposes. In general, this provided a reliable basis for developing multiyear programs, and it could reasonably be assumed that funding would be available as projects were delivered. To be sure, the program went through cycles as funding fell behind delivery or delivery behind funding. The buying power of the revenues declined over time as cars and trucks became more efficient, project costs increased with inflation, and fuel taxes were not often increased to keep pace. Earthquakes and other natural disasters diverted billions of dollars for unplanned work. Changes in Federal law or policy could also bring about unexpected changes.

To some extent, these factors are still at work. Expectations for future Federal transportation funding have declined and are still in doubt. The last six-year Federal transportation authorization act expired in September 2003, and the next authorization may not be enacted until late 2004 or 2005. Federal revenues for 2003-04 are now expected to be about $366 million less than had been anticipated when the 2002 STIP was adopted. Future Federal funding may be reduced even further as a result of California's switch from MTBE to ethanol-blended gasoline. Because current Federal law taxes ethanol-blended gasoline differently, California would contribute less to the Federal Highway Trust Fund and would receive smaller Federal transportation apportionments in future years. For the 2004 STIP fund estimate, Caltrans has estimated that the switch to ethanol will cost California $2.8 billion in Federal revenues over the five-year STIP period through 2008-09.

Truck weight fees recently experienced a significant drop that should be remedied by next year. The Commercial Vehicle Registration (CVR) Act of 2001 (SB 2084, enacted in 2000) restructured weight fees, beginning January 1, 2002, changing the fee basis from unladen weight to gross vehicle weight. Although the CVR Act was intended to be revenue-neutral, Caltrans reported last year that weight fee revenues were down by about $163 million per year from a prior level of about $800 million per year. SB 1055 (2003) provided a remedy, increasing weight fees effective December 31, 2003, and requiring the Director of Finance and the Department of Motor Vehicles to increase the fees by up to 10% if revenue neutrality is not achieved for 2003- 04.

As important as the temporary loss of weight fees has been and the impending reductions in Federal revenues may yet be, their effects on the state transportation program pale by comparison to the impacts of recent state budget actions. In recent years, there have been $5.9 billion in state transportation funding postponements, suspensions, and borrowings, including over $3 billion in STIP funding. The problems began soon after the enactment of the Traffic Congestion Relief Act of 2000 (AB 2928). That Act not only made promises and commitments that have not been kept, it made the entire state transportation program subject to the vagaries of the annual budget process. The constitutional firewall that had protected transportation funding for decades came tumbling down in less than three years.

Transportation projects usually take several years to bring to fruition. Planning and environmental studies, design work, permits and mitigation strategies, and right-of-way acquisition all must precede construction. An effective transportation program cannot survive when resources are suddenly advanced and withdrawn on an annual basis. Further compounding the instability inherent in the TCRP was that many of the 141 designated projects were not vetted through the transportation planning and programming process. Some projects were not deliverable within the original six-year schedule designated for the program. Many projects were not fully funded, leading either to a skewing of priorities or the wasting of resources. Though some were of high priority, others were not part of any plan supported at either the state or regional level.

The Commission's Response

The Commission has responded to the diversion and loss of transportation funds by suspending allocations, by monitoring cash flow closely, by encouraging local agencies to advance local funding for projects where they could, and by taking steps to fund projects by bonding against future Federal transportation apportionments. The Commission also delayed development of the 2004 STIP because of pending uncertainties in both Federal and state funding.

- In December 2002, the Commission suspended allocations to all STIP, TCRP, and SHOPP projects except SHOPP projects for emergency repair, seismic retrofitting, and traffic safety.

- In April 2003, the Commission adopted an allocation plan for the STIP and SHOPP. Over the next three months, the Commission followed the plan to ration funding to $1 billion of the $1.4 billion in projects that were ready to go.

- In July 2003, the Commission suspended allocations again. The Commission, in cooperation with the Department, continues to monitor the availability of cash to support resuming allocations. The allocation plan calls for allocations of up to $800 million for the SHOPP, depending on cash flow, and no allocations at all for the STIP through the end of 2003-04. SHOPP allocations were resumed on a limited basis in December 2003.

- During 2003, the Commission approved $386 million in STIP AB 3090 arrangements, under which a local agency advances a project with its own funds and in return receives programming either for cash reimbursement or for a replacement project in a later year.

- During 2003, the Commission approved $632 million in projects (plus bond issuance and capitalized interest costs) to be funded with the proceeds of Federal Grant Anticipation Revenue (GARVEE) notes; bonds secured by future Federal transportation apportionments. The first issuance is scheduled for February 2004.

- During 2003, the Commission approved $269 million in TCRP letters of no prejudice (LONPs). Under an LONP, a local agency implements a TCRP project with its own funds, retaining the option to claim the state TCRP funds dedicated for the project when and if they later become available.

- For the 2003-04 Budget, the Commission assisted the Legislature in identifying the cash flow needed to meet reimbursements for TCRP projects that had already been allocated. The $189 million identified in the Budget would meet that need.

In December 2003, the Commission adopted the fund estimate for the 2004 STIP. Under that estimate, the new STIP would add two new years (out to 2008-09) with no new project funding capacity. The $5.4 billion in projects carried forward from the 2002 STIP would be rescheduled across the five years of the new STIP; delayed an average of two years. In accordance with statute, the estimate assumes that TIF transfers will proceed as scheduled, without suspension, and that all prior loans will be repaid as scheduled.

2003-04 Mid-Year Spending Reduction Proposals

In late November, the Department of Finance issued mid-year spending reduction proposals for 2003-04, as a prelude to the 2004-05 Budget. Those proposals include another $993 million in reductions for transportation, including:

- $406 million from the SHA to reimburse the General Fund for general obligation debt service on bonds approved under the Passenger Rail and Clean Air Bond Act (Proposition 108, 1990), the Clean Air and Transportation Improvement Act (Proposition 116, 1990), and the Seismic Retrofit Bond Act (Proposition 192, 1996). If approved, this transfer would be a permanent loss to the transportation program.

- $200 million in additional loans from the SHA to the General Fund. If approved, these funds would be repaid by June 2007.

- $189 million to be transferred from the TCRF to the General Fund. This would reverse a transfer made to the TCRF in the 2003-04 Budget for the purpose of funding expenditures on TCRP allocations that have already been made. The proposal also includes repealing the statutory identification of the 141 projects in the TCRP and the rescinding of TCRP allocations. The stated intent of the proposal is that existing contracts be terminated by February 2004 unless a substitute funding source is found. If approved, the $189 million transfer effect of repealing the identification of TCRP projects is unclear, however, given the constitutional provisions of Proposition 42.

- $60.4 million in 2003-04, and another $47.2 million in 2004-05, to be transferred from the SHA to the General Fund. These are non-Article XIX revenues to the SHA that, under existing law, are transferred to the Public Transportation Account (PTA). If approved, this transfer would be a permanent loss to the transportation program.

- $30 million from the PTA to the General Fund. This is the “spillover” revenue to the PTA that occurs when the ratio of sales tax on gasoline to all sales tax is relatively high. If approved, this transfer would be a permanent loss to the transportation program.

- $5 million to be retained in the SHA by elimination of all funding appropriated for the Environmental Enhancement and Mitigation Program in the 2003-04 Budget. The proposal suggests that the funding to be transferred from the SHA would be made available by changing the management of Federal obligational authority (OA) for local programs to conform to the method used for Federal reimbursements in the Caltrans capital outlay program. The Department of Finance estimates that this could “result in an availability of about $800 million in unanticipated Federal reimbursements over 2003-04 and 2004-05.” At best, the proposed change would bring some Federal reimbursements sooner. Without the new reductions, that could allow some projects to be taken off the shelf and go to construction sooner. In any case, a change in OA management would not increase the total resources available.

Future Outlook

The future of transportation funding in California will depend largely on the actions of Congress and the State Legislature in four areas:

- Federal reauthorization. What level of Federal transportation funding will be appropriated for 2003-04 and what levels will be authorized through 2008-09? This year’s appropriation bill has not been enacted. The 2004 fund estimate assumes funding for 2003-04 at the mid-point between the two bills now in Congress. The last six-year authorization act expired in September 2003. The new reauthorization is not now expected until late 2004 or 2005. The 2004 STIP fund estimate assumed funding escalated at 2% per year from the amount assumed for 2003-04, before adjustment for a loss due to current Federal taxation of ethanol.

- Federal taxation of ethanol. Will Congress remove the special tax treatment now afforded to ethanol-blended gasoline and, if so, when? Will this be included in reauthorization or in other legislation? With California’s switch from MTBE to ethanol, Caltrans estimates a loss of $2.8 billion to California over the STIP period under existing Federal law. This loss is assumed in the 2004 STIP fund estimate.

- State sales tax transfers and loan repayments. Will the transfers be made, or will the Legislature suspend or borrow them again? Will prior loans be repaid as scheduled? The state transportation program has become largely dependent on sales tax revenues. Under the California Constitution, as amended by Proposition 42 (2002), gasoline sales tax revenues are transferred to the Transportation Investment Fund to support both the TCRP and the STIP, as well as local road subventions and the State Transit Assistance program. Over the last 3 years, however, the scheduled transfers have been postponed or suspended to backfill for General Fund deficits. Of the $5.4 billion needed to fund the 2004 STIP, about $4.0 billion is scheduled to come from sales tax revenues-- $3.3 billion from Proposition 42 transfers (including repayments of prior loans) and $0.7 billion from other sales tax revenues to the PTA, including the sales tax on diesel fuel.

- Further diversions from state transportation accounts. Will the Legislature approve new loans and diversions from transportation accounts, as proposed in the 2003-04 mid-year spending reduction proposals? Those proposals include $933 million in further transportation reductions, including the permanent loss of about $460 million in STIP revenues and a delay in another $200 million. These losses would be in addition to the losses and delays assumed in the fund estimate for the 2004 STIP, which would delay projects without adding new projects. The mid-year proposal would require STIP project deletions and further project delays. The Commission halted all new allocations to TCRP projects in December 2002. This proposal would also halt reimbursements for existing allocations.

Outlook for the 2004 STIP

The State Transportation Improvement Program (STIP) is updated biennially, with each new STIP adding two new years to prior programming commitments. The 2004 STIP, which will cover the five-year period through 2008-09, will have no new funding capacity. For the most part, it will simply reschedule the projects already programmed, delaying most projects by two years or more. To some extent, projects may be advanced through the use of local funds, using the provisions of AB 3090 (1993). AB 3090 permits arrangements under which a local agency may be reimbursed or receive a replacement project in return for advancing a STIP project with its own funds. There is also potential for freeing up some capacity in the 2004 STIP and advancing projects through the use of Federal Grant Anticipation (GARVEE) bonding.

The development of the 2004 STIP began with the adoption of the 2004 STIP fund estimate in December 2003 and will conclude with the new STIP adoption in August 2004. The California Transportation Commission exercised its option under state law to delay the development of the STIP because of pending Federal legislation that would have a significant impact on the fund estimate. The delay also permitted the Department of Transportation (Caltrans) and the Commission to take the impacts of the 2003-04 Budget Act fully into account.

The Commission may include projects in the STIP only if they are first nominated either by one of the 48 regional agencies in its regional transportation improvement program (RTIP) or by Caltrans in its interregional transportation improvement program (ITIP). The STIP consists of two broad programs, the regional program funded with 75% of STIP funding and the interregional program funded from 25%. The 75% regional program is further subdivided by formula into county shares. County shares are available solely for projects nominated in the RTIPs. The Caltrans ITIP may nominate projects only for the interregional program. Where Caltrans and a regional agency agree, a project may be jointly funded from a county share and from the interregional share.

STIP proposals, primarily recommendations for the rescheduling of projects, will be made through the RTIPs and the ITIP, due for submittal to the Commission by April 12, 2004. The Commission is required to hold at least two public hearings on STIP proposals, and those have been scheduled for May 12 in Sacramento and June 16 in Santa Clarita. By statute, the staff of the Commission is required to publish its STIP recommendations at least 20 days prior to STIP adoption. The staff recommendations are scheduled for July 15, with STIP adoption scheduled for August 5.

Respreading of 2002 STIP Projects

The 2004 STIP will consist primarily of rescheduling existing STIP projects. Through the fund estimate, annual targets were identified for each county and for the interregional share to guide development of the RTIPs and ITIP (a chart showing the annual targets was included in the December Executive Directors Report). The final STIP will conform to the year-by-year fund estimate for the whole STIP. The spread across the years for individual counties, however, cannot and will not precisely match the calculated targets. The actual rescheduling will depend not only on the individual county targets, but on regional and interregional priorities and deliverability of individual projects.

Future Cash Commitments

In the 2004 STIP, the Commission may approve new cash commitments, either for AB 3090 cash reimbursements or for GARVEE bond debt service. The programming of either type of cash commitment will modify the scheduling of regular projects because, unlike regular projects, they draw cash immediately rather than over a period of years. The STIP fund estimate capacity and annual programming targets were developed using the assumption that STIP projects would draw cash, on average, over a three-year period. To compensate, any new project cash commitments programmed in the STIP will be counted against capacity in a way that takes this into account. To reflect an equivalent draw on cash, they will be counted 30% toward capacity for the fiscal year of the programmed cash commitment, 50% toward the prior year, and 20% toward the second year prior. For example, for a new AB 3090 cash reimbursement of $100 programmed for 2008-09, $20 would be counted toward the programming target for 2006-07, $50 toward the target for 2007-08, and $30 toward 2008-09.

GARVEE Bonding

The Commission may select and designate some projects from the 2004 STIP to be funded from the proceeds of Federal Grant Anticipation (GARVEE) bonds. Under Federal and state law, the Commission is permitted to authorize the issuance of these bonds, secured by future transportation apportionments. The state's first issuance of GARVEE bonds, $632 million for eight projects from the 2002 STIP, is scheduled for approval in January 2004, with issuance in February. Because the bonds are secured only by Federal funds and are not a debt of the state, they are expected to achieve a higher investment rating and carry lower interest rates than state general obligation bonds. Because they will cover project costs that could have been funded on a pay-as-you-go basis had not the General Fund borrowed transportation funding, these GARVEE bonds are, in effect, covering a portion of the state's General Fund deficit.

The designation of the STIP projects in the first issuance came about as a way to move forward with several major projects in the face of the current cash shortage that prevented direct allocations. In each STIP project the bonding could proceed only where a local agency could provide all or part of the needed non-Federal match. The Commission recognized, however, that it could not continue to respond to individual project proposals for GARVEE bonding without a longer-range policy and financial plan. The Commission needed both an overall policy on bonding to guide the financial markets and a policy on the selection of projects to guide the Department and regional agencies in programming. In December 2003, the Commission adopted both.

Under the adopted financial policy, the Commission committed itself to limit annual debt service obligations to no more than 15% of the qualifying Federal revenues available to meet those obligations. That is one-half of the maximum debt service limit set in statute. The financial policy also stated that the selection of projects would be made through the state programming process, with the Commission selecting projects for bonding that are major improvements to corridors and gateways for interregional travel and goods movement. Major improvements may include projects that increase capacity, reduce travel times, or provide long-life rehabilitation of key bridges or roadways.

The STIP guidelines specified that the Commission might select projects proposed in either an RTIP or ITIP for accelerated construction through GARVEE bonding and that, with the agreement of the regional agency or Department, the Commission might designate a proposed project for bonding even if the original RTIP or ITIP did not specify bonding. The Commission might also select projects programmed in the State Highway Operation and Protection Program (SHOPP). ***(GARVEE Bonding may be a strategy that could Nevada County and Caltrans garner funds for the widening of SR 49 in future STIP cycles)***

Planning, Programming, and Monitoring (PPM)

Under state programming law, a regional agency may request and receive a portion of its county share for project planning, programming, and monitoring (PPM). For agencies receiving Federal metropolitan planning funds, the limit is 1% of the county share. For others, it is 5% of the county share. Because county shares were revised steeply downwards in the 2004 STIP fund estimate, 16 counties will need to lower their requests for PPM funding in the 2004 STIP. For the 2002 STIP, the estimate of all county shares for the three years from 2004-05 through 2006-07 was $2.709 billion. For the 2004 STIP, the revised estimate for all four years from 2004-05 through 2008-09 is $1.826 billion. That is a drop from $903 million per year to $456 million per year, a reduction of nearly 50%. Not all counties are affected because not all counties were requesting PPM mounts close to the statutory limit. Three counties are affected more because they had been anticipating a larger share for 2007-08 in the 2004 STIP. One of the 16 counties, Madera, and one other county, Kings, will need to lower their requests for PPM funding because they now qualify for Federal metropolitan transportation planning funds.

The counties with required annual reductions in PPM programming are Madera (87%), San Mateo (76%), Fresno (58%), Orange (56%), Tuolumne (50%), Santa Clara (49%), Nevada (49%), Merced (38%), Mono (36%), Madera (35%), San Diego (30%), Alpine/Amador/Calaveras (29%), Kings (29%), Monterey (17%), Butte (11%), and Sacramento (3%). ***(These reductions in PPM funds will have a major impact on NCTC planning projects for the next two years.)***